DOCUMENT RESUME

01751 - [A1051845]

The Economic Development Program of the Community Services Administration. March 30, 1977. 15 pp.

Testimony before the House Committee on Government Operations: Manpower and Housing Subcommittee; by Gregory J. Ahart, Director, Human Resources Div.

Issue Area: Domestic Housing and Community Development (2100); Education, Training, and Employment Programs (1100).
Contact: Human Resources Div.
Budget Function: Education, Manpower, and Social Services (500).
Organization Concerned: Community Services Administration.
Congressional Relevance: House Committee on Government Operations: Manpower and Housing Subcommittee.
Authority: Economic Opportunity Act of 1964, as amended (42 U.S.C. 2763). Community Services Act of 1974 (P.L. 93-644).

GAO sought to determine whether certain special impact programs in the Community Services Administration's (CSA's) economic development program were: progressing toward national and local goals; having an appreciable impact on areas they served; and being effectively administered. The review of six special impact programs included two high density urban areas of Chicago and New York and four urban and rural programs in Texas, Wisconsin, Virginia, and Mississippi. Among the New York program's more substantive accomplishments in alleviating severe problems in unemployment, abandoned housing, and declining business in the past 4 years were the: issuance of $2.6 million in loans resulting in an estimated 217 new or continued jobs; placement of over 2,800 people in full or part-time jobs; opening of a commercial center; and improvement of housing conditions through rehabilitation of many homes and new construction efforts. Nevertheless the program has been unable to keep pace with the substantial increases in unemployment and other problems. The Chicago program's efforts have been unsuccessful over the last 3 years in attracting any major industrial or retail firms to locate in its planned shopping center or its industrial park. The one profitable venture in the smaller impact programs, a restaurant, was sold after 4 years of program ownership. With its small staff, CSA has been unable to effectively provide all the needed assistance and it has not made extensive use of outside experts to supplement its staff. The present oversight system does not yield adequate quarterly monitoring data for CSA to assess program impact against stated performance goals. (QM)

UNITED STATES GENERAL ACCOUNTING OFFICE
Washington, DC 20584

FOR RELEASE ON DELIVERY
Expected at 9:30 am EST
Wednesday, March 30. 1977

STATEMENT OF

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HUMAN RESOURCES DIVISION

BEFORE THE

SUBCOMMITTEE ON MANPOWER AND HOUSING

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON THE

ECONOMIC DEVELOPMENT PROGRAM

OF THE

COMMUNITY SERVICES ADMINISTRATION

Madam Chairwoman, and members of the Subcommittee, we are pleased to appear today at the request of the Subcommittee in connection with your consideration of the Economic Development Program of the Community Services Administration - CSA.

We are now completing a review of this program for the Subcommittee and have obtained some insights into the program's accomplishments and administration.

Program sponsors are generally private non-profit community development corporations funded by CSA to alleviate unemployment and community deterioration in target areas through investment in businesses, community development, and social service projects. Our work, thus far, has been directed toward the activities of six operating sponsors known as special impact programs that represent a general cross section of CSA's economic development efforts.

We sought to determine whether the programs sponsored were

--progressing toward national and local goals,

--having an appreciable impact on areas they served, and

--being effectively administered.

As of October 1976, there were 36 operating special impact programs--17 in urban areas and 19 in rural areas--which had received about $229 million in Federal funds under the Economic Development Program. CSA had discontinued funding 15 unsuccessful program sponsors that had received $24.5 million in Federal funds. To begin expanding the program, CSA has made 10 planning grants during the last 2 years for development of new programs, 6 of which are now operational.

Special Impact programs were first authorized to be administered by the Office of Economic Opportunity - OEO - under Title I, Part D, of the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2763). Amendments to the Act in September 1972 authorized a new Title VII, Part A--Community Economic Development--which continued special impact programs in OEO and also provided for other Federal agencies, such as the Small Business Administration, the Economic Development Administration, and the Department of Housing and Urban Development, to assist OEO in carrying out the program.

In January 1975 the Congress enacted the Community Services Act of 1974 (P.L. 93-644) creating CSA, an independent executive agency, to succeed OEO and transferring to it responsibility for the Economic Development Program. The Act provided authority for the President to transfer the Economic Development Program to the Department of Commerce. This authority has not been used.

Enabling legislation provides that special impact programs must be of sufficient size, scope, and duration to have an appreciable and lasting impact in arresting tendencies toward dependency, chronic unemployment, and community deterioration and work toward the goal of becoming self-sustaining. Organizationally, they must be representative of and responsive to the residents of the area served, and carry out their programs with maximum participation and involvement of local businessmen and financial institutions.

A local sponsor, with the approval of CSA, may invest grant funds in

--for-profit business ventures through stock ownership or loans.

--land and property development projects such as shopping centers, industrial parks or housing restoration projects, and

--social service projects such as health, manpower training and employment services.

CSA maintains oversight of special impact programs from its Washington headquarters through approval of major program proposals and funding applications, periodic reviews of program operations, and evaluation by private consultants.

CSA GUIDANCE ON PROGRAM OBJECTIVES

During the first 8 years of their existence (1967-1975) special impact programs operated as demonstration efforts without formal guidance from CSA or OEO on program priorities or procedures for implementing the goals of enabling legislation. Recognizing the need for such guidance, OEO issued a position paper in late 1973 setting out the agency's proposed special impact program guidelines for comment. Over the next 2 years, these proposals became the subject of discussion between special impact program sponsors, OEO, and later on, CSA. A principal issue was whether the programs should emphasize attaining self-sufficiency, a new goal added in the 1972 legislative amendments, or stress making an appreciable impact in the community. It was not until September

1975 that the economic development program guidelines were finalized by CSA.

The policies and procedures ultimately adopted by CSA constitute a departure from early sponsor emphasis on the social goals of achieving appreciable community impact--alleviating unemployment and community deterioration. Lack of past financial success of many special impact programs led CSA to adopt policies emphasizing the achievement of more self-sustaining and profitable ventures as the primary program objective with social goals as a secondary long-term objective to be sought only after financial stability of the enterprise was attained.

<u>Achieving appreciable impact</u>

Ultimately, CSA expects special impact programs to achieve parity between the impact areas and the areas surrounding them and thus correct the existing imbalances in institutional capacity, income, jobs, and human resources. However, in its September 1975 guidelines, CSA determined that this goal could not be achieved by any existing or planned special impact programs in the short-term--that "appreciable impact" as defined in enabling legislation should instead be equated with the objective of reversing the prevailing economic, social, and institutional trends in the area.

This objective was to be measured by such factors as net inflow, rather than outflow, of jobs and income into the impact area, establishment of profitable ventures and property developments which would attract private capital into the impact area, increases in skilled managers and workers in the impact areas, and reductions in unemployment and public assistance rolls. Although data to measure effectiveness in these areas were generally available for the special impact programs in our review, CSA had not developed systems whereby such data could be obtained and analyzed routinely.

CSA characterizes increased employment opportunities for impact area residents as long-range goals of Special Impact Programs and believes that undue emphasis, however well-intentioned, on employment in the early stages of program development could be detrimental to business venture profitability. CSA guidelines provide that a stable, viable impact program is an initial indicator that progress toward appreciable impact is being made and that successful venture investment and property developments are subsequent indicators. Once those indicators are present, CSA expects meaningful impact can begin on the ultimate goals of increased employment, improved income, and independence from public assistance for the program's beneficiaries.

Attaining self-sufficiency

CSA instructions state that special impact programs self-sufficiency is to be considered a long-range goal and questions whether this is an appropriate goal at all. CSA expects the goal of special impact program self-sufficiency could become possible through a combination of its venture profits and non-CSA subsidization. However, instructions state that much more Federal money will need to be received for strengthening and expanding special impact programs before "appreciable impact" can be attained.

In contrast, CSA designates business venture self-sufficiency as an important short-term objective of the Special Impact Program. CSA's instructions provide that it is appropriate for a special impact program to have a mix of venture types--for-profit businesses, loans, land development and social ventures--but the priority over the short-term is to be on business ventures where profit maximization can be emphasized. CSA instructions state that past over-emphasis on human development in training venture managers rather than recruitment of expert managers has been a major contributor to special impact program losses to date. However, CSA has not set a time limit within which special impact programs should require ventures to become self-sufficient, reach profitability, or lose program support.

PROGRAM IMPACT AND ADMINISTRATION

Our review of six special impact programs included two in high density urban areas of Chicago and New York and four smaller urban and rural programs in Texas, Wisconsin, Virginia, and Mississippi. Over the last 9 years programs in New York and Chicago had invested heavily in the development of community improvements and other inducements to for-profit business ventures with visible but limited impact on overall problems in their communities. The four smaller urban and rural programs, operating during the last 6 to 9 years, have invested primarily in developing business ventures that have had difficulty in reaching profitability and which provide limited employment in the impact area. Thus far, under present CSA guidelines and funding levels, attaining the goal of appreciable community impact still appears to be far in the future for urban and rural programs in our review.

Urban programs

The Bedford-Stuyvesant special impact program in New York's Brooklyn Borough was the first and largest of this type program to be sponsored by the Federal Government. Over the last 9 years the Government has invested $55 million in the program which serves a 5-square-mile area with severe problems in unemployment, abandoned housing, and declining business. Among the program's more substantive accomplishments in alleviating these problems during the last 4 years were the

--issuance of $2.6 million in loans resulting in an estimated 217 new or continued jobs,

--placement of over 2,800 individuals in full and part-time employment through manpower referrals,

--opening of a commercial center most of which is now occupied, and

--improvement of housing conditions through rehabilitation of many homes and new construction efforts.

Despite positive program efforts, problems in the impact area have been increasing in recent years with

--unemployment increasing from 6 percent in 1970 to over 15 percent in 1976,

--vacant houses increasing to 2,000 in 1976 or twice the number vacant in 1972,

--over 24 percent of businesses employing 6,000 individuals leaving the impact area between 1969 and 1974.

Four years ago, we completed an assessment of the accomplishments of the Bedford-Stuyvesant program. We found that the program had made limited improvements in the impact area and in most cases had fallen short of its goals. More conservative goals were adopted for the next 4 years and in some cases the goals were met. Although the Bedford-Stuyvesant program has been unable to keep pace with the substantial increases in unemployment and other problems experienced in the impact area, the program has resulted in improvements over what the community might have been without it.

<u>The Pyramidwest special impact program</u> was begun in 1968 to serve several communities on the west side of Chicago that were experiencing high unemployment, poverty, and dramatic population decreases. These problems stemmed from the closing or relocation of many commercial and industrial firms due to community deterioration and civil disturbances that occurred in the impact area during the 1960's.

To combat these problems the program began development of an industrial park and commercial shopping center--about $7.2 million from CSA and $1.1 million from the Department of Commerce, Economic Development Administration has been used to date--intended to attract labor-intensive businesses to the impact area. Facilities planned for location on the sites or in the immediate vicinity include three health care facilities, a community bank, a cable television system, and new residential housing. Construction of one health care facility has been completed and will be opened soon.

Progress achieved to date in other planned areas has been slow and there is still no certainty as to whether or when program objectives will be realized. The program's efforts have been unsuccessful over the last 3 years in attracting any major retail or industrial firms to locate in its planned shopping center or its industrial park. Also, the general economic recession, a lawsuit brought by a contractor, the failure of the Federal Reserve Board to approve the banking operation, and the inability to obtain approval for a cable television operating franchise from the City of Chicago have all contributed to delayed program progress.

Small urban and rural programs

Four smaller special impact programs in Texas, Wisconsin, Virginia, and Mississippi which we reviewed had made substantive investments totaling $9.0 million in 22 for-profit business ventures, most of which had been operational for over 3 years. Of these, 6 have been dissolved and all but one have been operating at a cumulative loss. The one profitable venture, a restaurant, was sold after 4 years of program ownership.

CSA places heavy reliance on the grantee's studies and judgments in assessing the feasibility of proposed business ventures, and CSA's review and approval of grantee efforts is the key to venture financing. This process reduces the workload on CSA staff. However, CSA's limited involvement in the review process has resulted in the following situations which are illustrative of conditions we found in our review.

--An operating metal stamping company approaching insolvency was evaluated by a special impact program before the company was acquired in 1971. The program provided CSA with a favorable report on the planned acquisition, judging equipment to be sound based on a consultant's advice and discounting the impact of a planned 45 mile relocation on skilled labor in the plant. Shortly after acquisition, there was a total turnover in the labor force due to relocation, and the plant's equipment required substantial repairs. Also, skilled labor resources had to be recruited from outside the impact area. The grantee has retained interest in the plant, but the firm continues to operate at losses which have accumulated to more than $500,000.

--A bankrupt pool table manufacturing company was acquired in 1972 by a special impact grantee, with CSA approval. Before the acquisition CSA had employed a consultant who advised against the acquisition on the basis of managerial inexperience, overly optimistic financial projections, and lack of a feasible marketing plan. Despite the negative report, the sponsor and CSA believed that a viable venture could be developed. Subsequently, the problems cited by the consultant resulted in difficulties for the venture which has lost $295,000 to date. The sponsor believes that reinforced management could make the venture self-sufficient.

--CSA rejected a sponsor proposal to acquire a produce wholesale company in 1974 on the basis of the company's insolvency and questionable management capability. The sponsor hired a consultant who confirmed these judgments but the sponsor insisted that the investment would produce a viable company with CSA infusion of $326,000 in working capital. CSA approved an investment of $196,000 and by December 1976 the company was again involvent and the $196,000 investment was expected to be lost.

CSA Administration

Presently, CSA has 8 program monitors and 5 business analysts responsible for evaluating and providing technical assistance to the 36 operating special impact programs. These programs have invested over $90 million in 264 ventures. CSA estimates that these programs employ 776 individuals and the ventures employ 5,516.

With its small staff, CSA has been unable to effectively provide all of the needed assistance and it has not made entensive use of outside experts to supplement its staff. In those cases where consultants' views have been obtained, the results have not been used effectively. As a result many new ventures being approved by CSA for acquisition by a special impact program may not be effectively evaluated before committing Federal funds.

CSA maintains oversight of special impact program performance through quarterly monitoring reports prepared by sponsors on program and venture activities and through bi-annual evaluations conducted by CSA at the program site as part of the refunding cycle. In January 1977 CSA initated efforts to improve its present oversight and employed a consultant to improve its system for monitoring and awarding grants and for deriving effective program performance measures against stated goals.

The present system does not yield adequate quarterly monitoring data for CSA to assess program impact in terms of job creation, beneficiary identification, income generation, venture profit trends, and other data critical for assessment against stated performance goals. Such data can be obtained or developed at the program level, and recent CSA evaluation reports for the 6 programs in our review began to reflect consideration of these matters with CSA's recent efforts to improve its system.

Madam Chairwoman, this concludes my statement. We hope the information we provide today will assist your Subcommittee in its oversight of the Economic Development Program. We will be happy to answer any questions that you or the other Subcommittee members have at this time.